

HOUSING MARKET OUTLOOK

Halifax CMA

Canada Mortgage and Housing Corporation

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Uncertainty Will Continue to Impact the Housing Market

The Nova Scotia economy is expected to contract by one per cent in 2009 and then recover moderately in 2010 with growth of approximately one per cent. The provincial economy will decline less this year than many other parts of the region or country. This is very much in keeping with the recent historic trend of relatively slow but steady growth without large swings upward or downward. Relative stability in Halifax will help bolster the overall provincial figures.

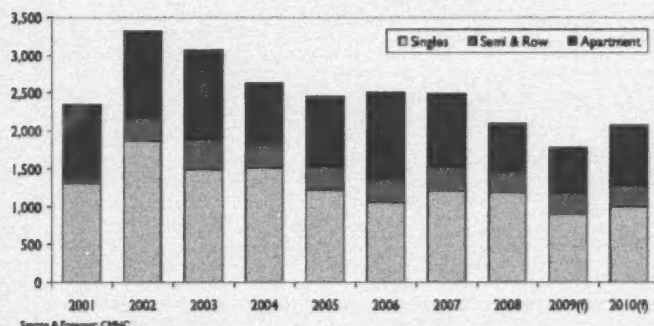
The Halifax economy has been benefiting from an increased number of people migrating to the city. International migration in particular has contributed to population gains in the Halifax Regional Municipality (HRM) and has taken some of the pressure off of the recently tight labour market. Last year saw record levels of people in the local labour force as well as record levels of people working in the HRM. Labour Force survey data indicate that there was an average of

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Figure 1

Overall Housing Starts to Rebound in 2010
Annual housing starts by type of structure, Halifax CMA



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209,000 people employed in Halifax and through the first quarter of 2009 there has been an average of 213,000 people employed.

While this pace of employment is not expected to continue throughout 2009, it is indicative of some stability in the local economy. Residential construction is expected to be weak and result in weaker demand for labour over the forecast period however commercial construction and government infrastructure spending will offset some of that weakness and provide support to the labour conditions. Unemployment is expected to rise in 2009 due in large part to increases in the labour force but also due to employment levels coming off of record highs.

Traditional areas of manufacturing (e.g., steel fabrication) continue to be weak due to weaker global demand, while more specialized manufacturing (e.g., technical components, energy extraction equipment) are seeing increased demand. The HRM also is continuing to benefit from a large public sector presence, particularly when it comes to the military. Large national defense contracts continue to provide a significant number of jobs in the city.

Along with high levels of employment, Haligonians are also earning more money. Seasonally adjusted earnings figures indicate that average annual earnings exceed \$39,000 through the first quarter of 2009. This compares to less than \$36,000 in the first quarter of 2008.

Consumer spending patterns are changing, as evidenced by slumping auto sales and even the fact that a number of restaurants in the city have filed for creditor protection. These factors, combined with weaker home sales in Halifax are signs that consumers are reacting to a heightened level of economic uncertainty. In spite of the fact that both employment and wages are near record highs and there continues to be population growth in Halifax, home sales have slowed considerably. Relatively favorable local conditions are not enough to persuade potential buyers. National and international uncertainty is causing individuals to either reconsider their options or delay the decision altogether for the moment.

Demand for housing will be supported by employment and wage levels remaining strong, in spite of coming off of recent record highs. Low interest rates and continued net-migration gains will also continue to be supportive of housing demand. Offsetting this will be the general uncertainty in the marketplace and

the fact the aforementioned demand factors are seeing slower growth for 2009. The result will be reduced overall demand for both new and existing homes in Halifax.

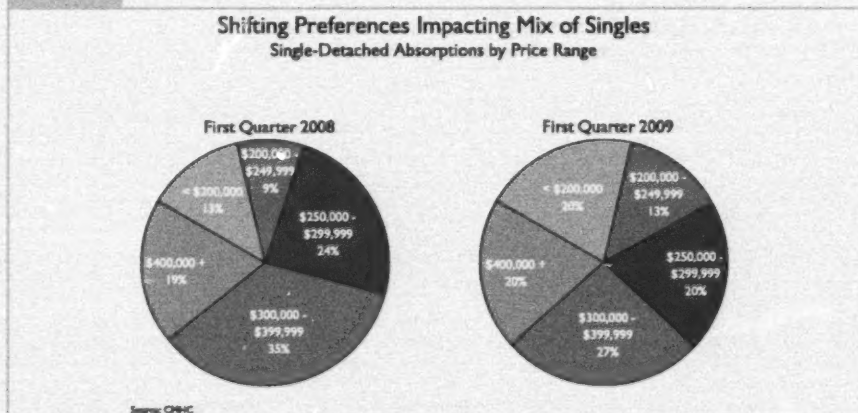
Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

New Home Construction to Decline

New home construction fell 16 per cent in 2008 and is expected to decline another 15 per cent in 2009. Starts are expected to rebound in 2010 as the economy begins to improve late this year and next year.

Figure 2



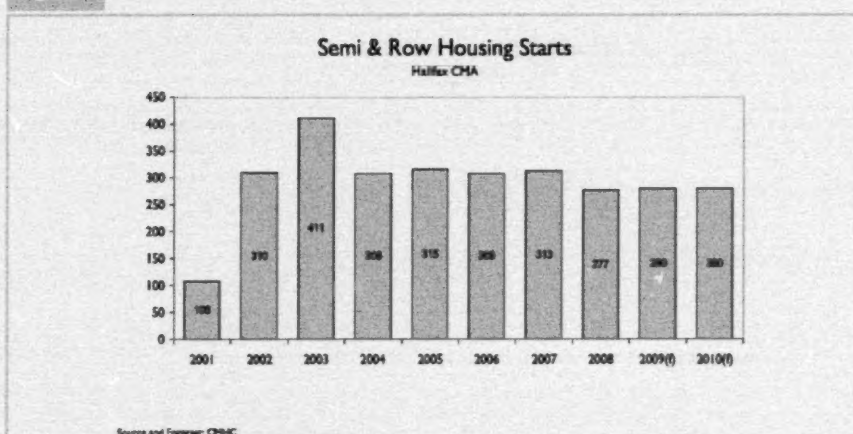
-Housing starts began last year with some relative strength, due in large part to some spillover demand from the existing homes market that carried over from 2007. In the latter half of 2008, however, demand for new construction began to weaken considerably. Single-detached starts were down only two per cent for the year but were down 17 per cent in the last two quarters of the year. Weakness in multiple starts was more consistent throughout the year and ended the year down more than 28 per cent.

Decreased demand for single-detached housing starts is not a new story in Halifax. Single starts have been trending consistently downward since the 2002 peak. The number of single starts last year and the number forecasted for this year and next are representative of a continuation in this downward trend that has always been part of the local housing market cycle. Like most markets there tends to be a significant amount of cyclical in the Halifax housing market as demand rises and falls with the changes in economic and demographic conditions.

Single starts are expected to fall nearly 24 per cent in 2009 before recovering by more than ten per cent in 2010. There will be less than 1,000 single starts in Halifax this year for the first time since 1991. The previous recent low was in 2006 with 1,056 single starts.

Many demand factors remain quite strong in the HRM. Employment and wage levels will be near record highs, interest rates are historically low, market conditions are favorable

Figure 3



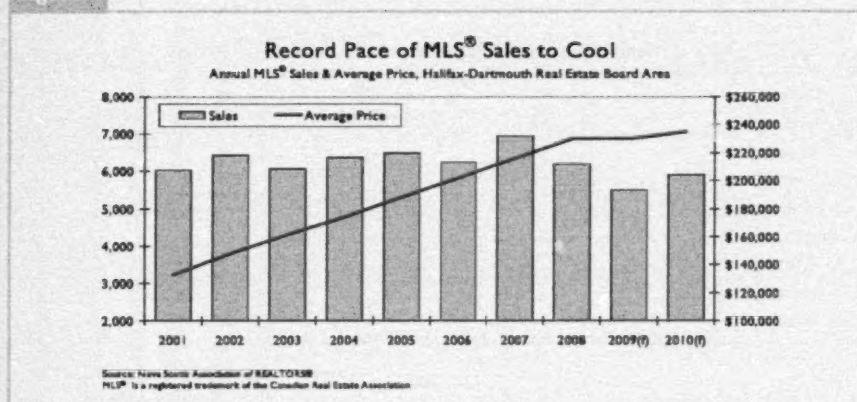
to buyers and while the population will grow more slowly, it will nonetheless continue to see positive growth. These factors, however, will grow much more slowly or not at all in 2009 and will subsequently impact the potential for growth. What is hindering both demand and potential growth is a heightened level of uncertainty regarding the extent of the economic downturn. The combination of these contributing factors will result in overall reduced demand for both new and existing homes.

Reduced levels of overall demand are resulting in changes in the market place. Most notably there has been a shift by consumers for less expensive homes. In the first quarter of 2008, 54 per cent of new single-detached home sales averaged more than \$300,000 in price. This percentage share has already dropped to 47 per cent in the first quarter of 2009. This trend is expected to continue resulting in a change in the mix of homes being built and sold. This will put downward pressure on overall average home prices in the city. While a typical apples-to-apples

home may not cost less to build from year-to-year, the fact there likely will be more smaller and less-expensive homes built will result in the overall average price remaining basically unchanged at approximately \$330,000 in 2009. Next year, as demand begins to improve, there will be some upward pressure on prices resulting in an increase to approximately \$335,000 for an average, new, single-detached home.

Multi-residential construction cooled considerably in 2008. Apartment style starts were down 34 per cent with only 639 new units breaking ground. Demand for multiples has declined due to many of the same factors impacting the singles market. Uncertainty, however, is playing a more significant role in this segment of the market. The greater amount of investment risk involved in larger-scale projects is causing many developers and builders to exercise caution and take a "wait-and-see" approach in the current environment. In 2007 and 2008, projects were delayed, at least in part, because of competition for labour. In the latter part of 2008 and throughout the forecast period,

Figure 4



projects will continue to be delayed, but now it will be more a result of weaker demand and increased caution on the part of investors. This will contribute to further weakness in apartment starts with only 600 units starting in 2009. Expect to see increased activity in 2010 as apartment starts increase to 800.

Semi-detached and row-style units will be one area of the market that will remain relatively stable. Expect to see approximately 280 semi and row starts in both 2009 and 2010 which will be close to levels recorded in 2008. This style of home remains popular due to a relatively lower price point (i.e., than for singles) yet offers ample space, requires less maintenance and is even more energy efficient.

Existing Home Sales Will Continue to Decline

In 2008, existing home sales declined nearly 11 per cent compared to the record set in 2007. The existing homes market responded very quickly to the elevated levels of economic uncertainty that became more

prominent in the latter part of 2008. Sales were trending downwards through the first three quarters of 2008 by approximately seven per cent. However, in the fourth quarter of 2008, sales were off over 26 per cent. Through the first quarter of 2009, sales are also off over 26 per cent.

While the economic fundamentals are relatively stable in Halifax, the economic environment is causing many buyers to delay decisions to buy or move. In an environment of heightened uncertainty, any additional risk is being avoided. The result, of course, is a reduced level

of demand for both new and existing homes.

Existing home sales are, therefore, expected to decline in 2009 by another 11 per cent before rebounding by approximately seven per cent in 2010. With reduced levels of demand resulting in fewer sales, expect to see price growth remain subdued as well. The price of an average existing home is forecast to remain virtually unchanged at \$230,000 in 2009 before increasing slightly in 2010 to approximately \$235,000.

The number of existing homes that will be listed in 2009 is likely to be substantially unchanged from the levels seen in 2008. The difference, however, will be that fewer of these homes will sell and that will result in a lower sales-to-new listings ratio. In other words, market conditions which have already changed will remain more favorable to buyers over the forecast period. Combine this factor with the fact that employment is strong, wages are stable, interest rates are low, migration remains positive and price

Figure 5

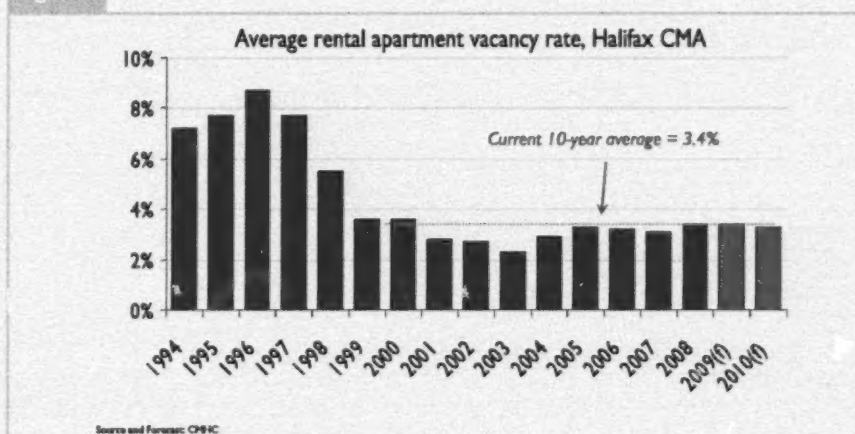
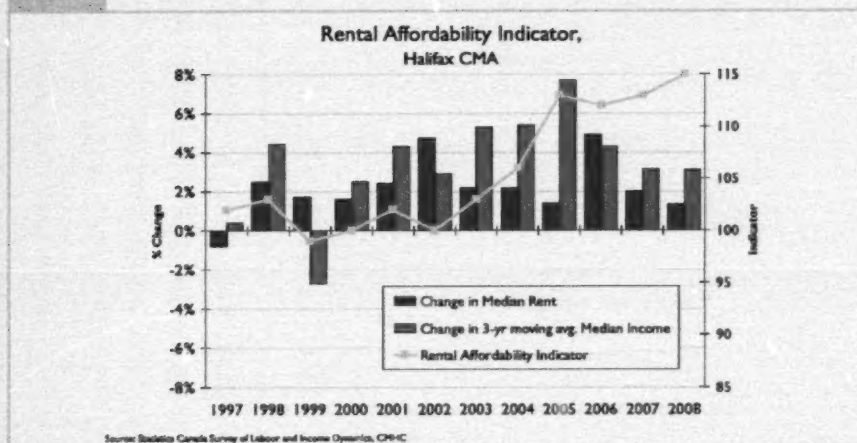


Figure 6



growth has moderated and the result is a firmly established buyers market for 2009.

Little Change Expected in Vacancy Rates

The rental market is one real estate market that may benefit from a weakened economy, particularly in Halifax. Expect to see vacancy rates remain substantially unchanged in 2009 at approximately 3.4 per cent before decreasing slightly in 2010 to 3.3 per cent. Expect average rents to rise moderately by approximately two per cent per year in both 2009 and 2010. An average two-bedroom unit rented for \$833 per month in 2008 and will likely rent for \$850 and \$865 per month in 2009 and 2010, respectively.

The rental market will be well-positioned to withstand the impact of economic uncertainty. As discussed above, in the current environment, potential home buyers are more likely to delay the decision to purchase a new or existing home. For those currently in the rental market, this means staying where they are and consequently bolsters the demand for rental units.

Continued gains in migration in Halifax will also be supportive of the rental market and provide a stable source of demand for apartments as newcomers have a higher tendency to rent. Furthermore, the Halifax rental market is one of few centres across the country to see improving affordability. This simply means that average rents have been rising more slowly than average income levels. The result has been that the rental market in Halifax offers value to renters and that demand for rental units has remained and will remain stable. The Halifax rental market, with its relative affordability, will continue to offer significant competition for the condominium market and for other forms of entry level housing.

In recent years a significant number of new apartments have been added to the Halifax market and another 700 remain under construction. In spite of all of this new construction, the vacancy rate has averaged just over three per cent and is expected to remain near that level. The effect of additional supply will be offset by stable or increasing demand resulting in little change in the vacancy rate in the forecast period.

Average rents will continue to grow only modestly in spite of stable demand. Competition for tenants will increase along with demand due to increases in supply. The move-up market is active in Halifax as tenants continue to move from slightly older to slightly newer apartments in all price ranges. The result of this activity will be that older buildings will face increasing levels of competition for tenants and will have less opportunity to raise rents. Rent increases will be limited to increases in operating costs in the forecast period.

Newer buildings will continue to push the limits in terms of average rents. This is due to continuously rising costs of new construction and development. Larger buildings require longer construction periods, more specialized labour and are more costly to design and construct. Consequently, developers enhance the products with top-quality finishings in order to attract tenants at the higher rent levels.

Forecast Summary Halifax CMA Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
Resale Market							
MLS® Sales	6,239	6,945	6,205	5,500	-11.4	5,900	7.3
MLS® New Listings	10,701	10,247	10,710	10,500	-2.0	10,800	2.9
MLS® Average Price (\$)	201,830	215,668	229,916	230,000	0.0	235,000	2.2
New Home Market							
Starts:							
Single-Detached	1,056	1,207	1,180	900	-23.7	1,000	11.1
Multiples	1,455	1,282	916	880	-3.9	1,080	22.7
Semi-Detached	154	166	108	100	-7.4	110	10.0
Row/Townhouse	154	147	169	180	6.5	170	-5.6
Apartments	1,147	969	639	600	-6.1	800	33.3
Starts - Total	2,511	2,489	2,096	1,780	-15.1	2,080	16.9
Average Price (\$):							
Single-Detached	292,665	332,821	329,765	330,000	0.1	340,000	3.0
Median Price (\$):							
Single-Detached	267,000	305,000	299,900	300,000	0.0	310,000	3.3
New Housing Price Index (% chg.)	4.3	5.8	7.9	3.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	3.2	3.1	3.4	3.4	0.0	3.3	-0.1
Two-bedroom Average Rent (October) (\$)	799	815	833	850	-	865	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-1.90	5.29	0.49
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-1.42	5.94	0.30
Annual Employment Level	204,800	208,400	209,400	212,500	1.5	215,000	1.2
Employment Growth (%)	1.1	1.8	0.5	1.5	1.0	1.2	-0.3
Unemployment rate (%)	5.1	5.3	5.2	5.7	-	5.5	-
Net Migration ⁽¹⁾	1,104	1,500	1,200	1,500	25.0	2,200	46.7

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of REALTORS®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 and 2008 migration data is forecasted

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